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Promoting Agribusiness in Uganda
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Summary

Political turmoil from the 1970s through the mid-1980s transformed Uganda, the "pearl of Africa," into one of the continent's most desperately impoverished and devastated countries. Particularly hard hit was the agricultural sector, by far the most important component of Uganda's economy. Uganda had enjoyed relative prosperity based largely on exports of coffee, tea, cotton, and tobacco. Now it found its agricultural base in shambles, its system of cooperatives and markets destroyed. More than that, the country's commercial knowledge base was lost.

President for Life Idi Amin had in 1972 expelled all noncitizen Asians 60,000 people who largely made up Uganda's merchant class. For USAID and other donors who reinitiated economic assistance to Uganda in the mid-1980s, the development strategy was clear: to reduce poverty and achieve sustained economic growth, reviving agricultural exports was key.

USAID's agribusiness program began in 1984 with a $30 million Rehabilitating Productive Enterprise project. One purpose was to finance equipment to resuscitate agribusinesses that had curtailed operations or ceased them altogether. The project largely failed. For one thing, most of the enterprises to which loans were made proved to be unviable. For another, participating banks showed little interest in agribusiness lending. As a result, the project's parallel purpose of building agricultural banking capacity also went unmet.

Another institution-building initiative, a $20 million effort to strengthen Uganda's cooperative unions, also failed. Here the problems were politicization and mismanagement within the unions, and lack of a sufficient economic base for cooperative activity. USAID had better results at the macroeconomic level. Through its Agricultural Nontraditional Export Promotion Program, the Agency helped bring about a shift by the Uganda Government toward a more liberal trade environment. Specifically, USAID was instrumental in Uganda's decisions in 1989 to (1) devalue the shilling, (2) eliminate certain foreign exchange controls, and (3) remove the export monopolies of parastatals government-run enterprises.

The liberalization gave an immediate boost to nontraditional agricultural exports. From $700,000 in 1988, low-value

nontraditional exports (corn, beans, fish, and the like) spurted to $29 million in 1991. At the same time, exports of more sophisticated high-value nontraditionals (such as vanilla, flowers, and silk) rose from $700,000 to $2.4 million.

In 1990 the Mission shifted its focus. It turned from institution building (which had largely failed) and promoting policy change (for which it can take credit) to direct assistance to individual agribusinesses. Assistance aims primarily at producers of high-value nontraditional commodities. However, the growth in nontraditional exports is attributable entirely to policy reform. The new strategy of direct intervention has not been in place long enough to measure its success.

With its rich natural resource base and its low labor costs, Uganda has obvious advantages in agricultural exports. But there are three main hurdles to rapid growth. They are (1) lack of infrastructure (roads, electricity, and the like), (2) lack of supporting services (such as credit and technology development), and (3) lack of firm government commitment to export-led economic growth (the reforms of 1989 came about chiefly at the urging of donors). Building all three will be a slow process. But with the right policies and support, Uganda can pick itself up and become economically robust again.

Background

Before independence and during the years immediately after, Uganda enjoyed relative prosperity based largely on exports of coffee, tea, cotton, and tobacco. The agricultural economy was based on a system of small producers organized into cooperatives and private middlemen. Export markets were well developed, and internal marketing channels operated efficiently. The system began to deteriorate in the late 1960s as the period of Milton Obote neared its end.

In the 1970s, under Idi Amin, the situation deteriorated further. The deterioration came partly from the expulsion of all noncitizen Asians-60,000 people who by and large made up the merchant class. It resulted also from perverse economic policies that caused Uganda to lose its international competitiveness. Gradually, the cooperatives ceased to function, and marketing channels became inefficient and unreliable. Economic conditions hit bottom in the civil war of the late 1970s, when economic activity came to a standstill and the country's infrastructure was devastated. Conditions remained so for several years.

By 1986, when political stability finally returned to most of the country, the only major export was coffee. But it faced a sharp and continuing deterioration in terms of trade. Uganda had lost its comparative advantages in most other crops and was essentially in the position of starting all over again. That was the case not only in building up new export markets but also in restoring the country's infrastructure and institutional base. From its postindependence status as the "pearl of Africa," Uganda had become a "basket case," with a per capita income in 1992 of $130.

Multilateral and bilateral donors reinitiated development programs in the mid-1980s. The priority was infrastructure rehabilitation. A second priority was financing the huge fiscal and balance-of-payments deficits in association with market-based macroeconomic policy reforms. The overall development strategy was clear. A major engine for sustained economic growth and reduction in poverty was to be rapid growth in agricultural exports.

It is in this context that USAID has been supporting agribusiness in Uganda. The underlying rationale is that the agribusiness sector must play the leading role for the country's ambitious market-led economic growth strategy to succeed. With few exceptions, agribusinesses in Uganda are starting from not only a very low production base but also a lost knowledge base that must be reestablished in the face of more competitive world market conditions. Moreover, the Ugandan Government has a lot to learn about providing the proper support for agribusinesses seeking to compete successfully in world markets.

The USAID Program

The USAID agribusiness program started in 1984 with the Rehabilitating Productive Enterprises project (RPE). The purpose was to finance equipment for productive agroenterprises that had ceased operations or were operating below capacity. A $20 million credit line for equipment imports was to have been channeled through local commercial banks; $3 million of technical assistance was to have been provided to participating banks; and $7 million was to have covered various local costs.

After numerous delays, 200 loans were made (mostly to commercial farms), creating an estimated 1,000 jobs. In the end, though, most of these enterprises proved unviable, and the employment impacts proved to be short lived. Most of the loans have not been repaid. Furthermore, the objective of building agribusiness lending capacity in the banking sector was never achieved. The project has been largely inactive since 1990.

In 1988 the Mission undertook two new initiatives in support of agribusiness. One was the $20 million Cooperative Agriculture and Agribusiness Support project (CAAS). Cooperatives had been established by the British during the colonial era as the major marketing institutions for coffee and cotton. Although cooperatives suffered during years of economic decline and became heavily politicized, the Mission felt they could be revitalized to become a positive force in the country's economic growth.

The project financed imports of agricultural inputs to be sold to farmers through cooperatives. This was intended to help establish input-supplying agribusinesses. Proceeds from the sale of inputs would then be used to strengthen, through equipment, supplies, and training, the entire cooperative system from the apex organization (the Uganda Cooperative Alliance) down through the 40 district unions to the 4,000 primary cooperative societies.

The objective was to turn the district unions and primary societies into viable agribusinesses supplying inputs to farmers and processing and marketing agricultural products.

The second initiative was the Agricultural Nontraditional Export Promotion Program (ANEPP). When it became evident that world prices for Uganda's traditional high-volume exports (coffee and cotton) were in decline, the government and donors agreed that sustained economic growth could come only through export diversification. ANEPP provided nonproject assistance to the government in support of policy changes that would make Uganda more competitive in nontraditional agricultural products.

The most important changes needed were (1) increasing the official exchange rate to the parallel rate (2) removing controls on the use of foreign exchange earnings by exporters, and (3) eliminating the export monopolies of government marketing parastatal organizations. Although these changes had been put into effect by 1990, it should be noted they were key conditions of large World Bank structural adjustment loans. ANEPP did facilitate the changes, but it is generally agreed that they would have taken place even if there had not been an ANEPP.

In 1990 the Mission redesigned both CAAS and ANEPP. The projects shifted from broad policy change and institution building to direct commodity-specific assistance to individual agribusinesses. Under CAAS the Mission decided to assist a limited number of district unions and primary societies thought to have potential to improve coffee marketing, increase production of edible oil for domestic consumption, and increase nontraditional agricultural exports. Assistance consisted of technical and marketing advice, management training, and production and marketing loans totaling $20 million funded with PL 480 Title II generated local currencies.

Under ANEPP, the export development component was expanded. It now included a long-term agribusiness adviser, in-depth "opportunity studies" in six agricultural subsectors, commodity-specific short-term technical assistance to individual businesses, and direct grants to agribusinesses for feasibility studies, market development, and financial packaging.

Although agribusiness had been a major component of the USAID program since 1984, it was not until 1991 that the Mission began to articulate an agribusiness development strategy. The 1992 Country Program Strategic Plan included, as one of the Mission's objectives, increased rural incomes for men and women from agricultural exports. It was at this time that the Mission decided to support export-led growth by stressing specifically nontraditional agricultural exports.

This strategy is reflected in the Mission's most recently approved agribusiness project: Investment in Developing Export Agriculture (IDEA). This $25 million project will provide mainly technical assistance to individual agribusinesses and to supporting organizations in the private and public sectors to increase exports of selected nontraditional products. The end result, on which the project will be judged, will be measurable increases in production, incomes, and exports clearly attributable to project activities.

Assessment of Program Performance and Impact

The overall agribusiness program has several objectives:

improving the policy and institutional environment for nontraditional exports, turning cooperatives into viable agribusinesses, strengthening and expanding the private agribusiness sector, and increasing incomes earned from the production, processing, and marketing of nontraditional exports. Results have been mixed.

Impact on the Policy and Institutional Environment

The program's major success has been in macroeconomic policy. Changes in export policy promoted by ANEPP were critical to making Uganda competitive in nontraditional agricultural exports. The major impact was on low-value nontraditional exports to neighboring countries, but progress with high-value nontraditionals for the European markets would not have been possible without the devaluation and removal of foreign exchange controls. Although this was a macroeconomic policy rather than an agribusiness initiative, it did more to benefit the agribusiness sector than any other USAID-funded activity.

By contrast, progress with agribusiness-specific policies has been disappointing. The basic problem is that the government does not have a clear and consistent policy for export-led economic growth. Most policy changes have come about at the urging of donors. Until the government understands fully the implications of policy changes and develops a commitment to the objectives of those changes, it will not be able to take the initiative in formulating appropriate policies.

Institutionally, the program has focused on creating an export policy and development capability in the Ministry of Finance. The Export Policy and Development Unit (EPADU) has been funded and staffed by USAID since 1988. This unit has carried out a number of studies and analyses that have contributed to improved export policies and have shed light on opportunities and constraints in specific agricultural export subsectors. However, the unit appears to be unsustainable owing to a lack of financial resources and of necessary expertise in the Ugandan Government.

USAID may be making a more significant impact on agribusiness through the Uganda Investment Authority (UIA), which regulates and promotes foreign investment. The Mission funds a full-time adviser who acts as deputy director. Since alliances with foreign businesses are likely to be the primary means of gaining access to technology, markets, and financing for most Ugandan businesses, the UIA can play an increasingly important role in supporting agribusiness growth. However, like EPADU, the UIA is not sustainable at the moment.

Two other institution-building initiatives have largely failed. The effort under RPE to strengthen the ability of financial institutions to make agribusiness loans foundered through lack of interest and poor technical assistance. And under CAAS an attempt to strengthen the Uganda Cooperative Alliance and several district unions in providing financial management and technical support to primary cooperative societies failed for two reasons. First, Uganda lacked an economic base for cooperative activity. Second, many of the cooperative institutions had become politicized and were mismanaged. Little short- or long-term benefit has come of USAID's expensive, long-term effort to reestablish cooperatives in Uganda.

Impact on Private Agribusinesses

USAID's impact on agribusinesses has been of two types: (1) production increases in a large number of firms resulting from an improved policy and institutional environment and (2) production increases in a small number of firms resulting from direct assistance to individual businesses. The former is difficult to attribute precisely to USAID assistance. The Agency has had an impact on the agribusiness environment mainly through the ANEPP policy reform efforts and the policy dialogue conducted by EPADU staff and advisers and by Mission staff. The policy reforms helped create the conditions for across-the-board increases in economic activity, especially nontraditional exports. From this standpoint, a large number of agribusinesses benefited from USAID-supported activities.

The production impact of the Agency's direct assistance to agribusinesses has been more focused, but also more limited. Except for RPE (which was not export oriented and which had almost no lasting impact on agribusiness) the first direct-assistance activities were export seminars under ANEPP. These seminars were well attended and generated interest in exports, but the information tended to be too general to be of immediate use to the attendees. The seminars were followed in 1992 by more direct one-on-one assistance under ANEPP and CAAS. Finally, the PL 480 Title II monetization program financed loans to cooperatives and a few agribusinesses for crop production, crop marketing, and fixed investments.

Some direct assistance has been provided to producers of low-value nontraditional exports (corn, beans, sesame, fish, and some hides and skins), but most has been aimed at high-value nontraditionals. These consist of fruits, vegetables, spices, and miscellaneous specialty products such as flowers, silk, and crocodile skins. Although their rate of growth from a low base has been rapid, the number of agribusinesses moving into the more sophisticated high-value nontraditional exports is small. Moreover, the range of products is narrow and production levels are low. The products most well established are vanilla and flowers.

Slowest growth has occurred in fruits and vegetables for the European market. This market has the most demanding requirements for quality and reliable supply. Besides, marketing such products demands a highly developed infrastructure (including roads, electricity, refrigeration, and airports) and supporting services (such as technology development and dissemination, marketing, agricultural and agribusiness credit, and affordable transport, storage, and packing). It is for fruits and vegetables that transfer of production and marketing know-how will be the most difficult and development of necessary infrastructure and supporting services will be slowest.

Impact on Nontraditional Agricultural Exports

USAID sought an impact on nontraditional agricultural exports mainly through the ANEPP policy-reform component, then through the ANEPP and CAAS export-development activities. Exports of nontraditional products took a quantum leap in 1989 and then tripled in 1990. Virtually all growth was in low-value exports to neighboring countries. Such exports increased from $700,000 in 1988 to $29 million in 1991. Recent data point to continued strong growth.

High-value nontraditionals destined for European markets doubled from 1989 to 1990. Since then, they have grown consistently by 30 to 50 percent a year. But these exports have accounted for only a small proportion of total growth in nontraditional agricultural exports. They increased from $700,000 in 1988 to $3.5 million in 1992. Clearly liberalization of the foreign exchange and trade regimes in 1989 and 1990 had a major impact on nontraditional exports.

Unlike the policy reforms, ANEPP and CAAS export development activities have not yet had significant impact on nontraditional exports. Given the risks and uncertainties involved with high-value nontraditionals, USAID has so far mainly piloted efforts to determine the feasibility of new products and new markets. The Agency has also helped new agroenterprises establish themselves as exporters. As noted earlier, the program's main impact has been to start the growth process of high-value nontraditional exports. The appropriate time frame for assessing effects on export earnings will be during the next 10 years.

Impact on Smallholders, Employment, and Gender

Ugandan agriculture is characterized largely by smallholders: 75 percent of all landholders work less that 2 hectares (about 5 acres). Experience suggests that smallholders can be viable producers of some high-value nontraditional exports. USAID-assisted silk and vanilla exporters have found, for example, that the yields and quality of smallholder production exceed what they were able to achieve from estate production using hired labor.

Women make up the major share of the Ugandan agricultural labor force and account for an even higher portion of production (70 and 80 percent, respectively). Gender considerations are receiving attention in the design and implementation of directly assisted agribusiness activities in the USAID program. However, evidence indicates that women participating in these programs receive far less income than men. Successfully addressing the gender gap requires measures on several fronts, from constraint analysis to policy dialogue to enhanced education for girls and women.

Cost Benefit Analysis

During 1988-92 the world coffee market collapsed. Uganda's coffee exports dropped from $265 million to $95 million, while all other agricultural exports grew from $7 million to $47 million. Most of this increase resulted from increased political stability, infrastructure rehabilitation, and the government's economic stabilization and liberalization policies.

USAID support for policy changes that made increased nontraditional exports possible had an indirect impact on value added. Cotton, tea, tobacco, hides and skins, fish, corn, and beans accounted for most of this growth. At the firm and farm level, the Agency's direct-assistance activities have not yet had significant impact on overall value added. They have, however, brought some agribusinesses and farmers closer to being able to produce nontraditional crops profitably for export markets.
Whether these effects are sufficient to justify the Agency's costs revolves around two issues. First, how much of the $23 million increase in nontraditional agricultural exports in 1990 91 can be attributed to USAID? If ANEPP contributed significantly to policy reforms that made this increase possible, then the discounted benefit stream from that effect alone would generate a sufficient rate of return to justify the entire USAID agribusiness program.

However, most changes that facilitated increased exports took place in 1989 and 1990 and can be attributed only partly to one USAID activity. A more relevant question, therefore, is, Did the combined package of support provided by USAID make a significant contribution to the full range of preconditions necessary for sustained agribusiness growth from 1992 on? If so, will future growth be sufficient to justify the cost of that package?
By excluding costs and benefits of the macroeconomic policy changes of 1989-90, it is possible to estimate the rate of return of USAID's direct assistance to the agribusiness sector. The impact of these activities has been limited, no more than $1 million by the end of 1992. Therefore, if cost benefit analysis is limited to actual production achieved thus far, the program's economic rate of return is negative.

However, two assumptions seem justified. First, USAID's technical assistance and financial support have contributed significantly to the gestation process necessary for entering into highly competitive high-value nontraditional-export markets. Second, this gestation process is now over. By assuming very high sustained rates of nontraditional-export growth (110 percent a year from 1994 through 1996, 50 percent a year from 1997 through 1999, and 20 percent a year from 2000 through 2005), the rate of return on USAID's direct assistance to agribusiness is a slightly positive 0.64 percent. That is still well below what USAID seeks to achieve in its development programs.

An alternate approach assumes that macroeconomic reforms implemented after 1990 are partly attributable to USAID assistance. If we make the (relatively generous) {FOOTNOTE} assumption that 25 percent of the estimated growth in nontraditional exports from 1991 through 1993 can be attributed to USAID assistance, the rate of return on that assistance (using the same growth rates as above) becomes 8.42 percent.

However, the assumed growth rates behind these calculations should not be taken as projections of what is likely to occur. They simply illustrate that the future growth of nontraditional exports will have to be dramatic for the direct-assistance element of the USAID agribusiness program to have been cost-effective. Thus the program (excluding the macropolicy reform support) is unlikely ever to achieve a significant positive rate of return. This does not mean the program should be scrapped. It means that a large part of what has been funded in the past has had little or no impact. These expenditures should now be written off as sunk costs, and decisions regarding future funding should be based on realistic projections of actual impact on exports and value added.

Lessons Learned

Three factors have prevented USAID's agribusiness program in Uganda from having its desired impact: (1) flaws in the design and implementation of the individual projects, (2) lack of a well-articulated development strategy, and (3) macroeconomic setting within which the program was implemented.

Project Design Flaws

At the program level, two design factors stand out. On the positive side, an unusual amount of built-in flexibility allowed the Mission to adjust quickly to changing conditions and take advantage of targets of opportunity. When a public or private institution needed assistance in providing improved services to agribusinesses, the Mission was able to respond with financial support or technical assistance that was more timely and appropriate than is normally true of USAID programs.

On the negative side, one reason the program was so flexible is that much of it was funded with local currencies. These were generated by nonproject assistance, including commodity import programs, PL 480, and balance-of-payments support. Because the local currencies were owned by the Ugandan Government, they were not as closely managed by the Mission as dollar funds would have been. As a result, many of the local currency-funded activities did not fit into an overall strategy and lacked clear purposes and goals. This set of circumstances has tended to reduce the long-term impact of even some of the most successful activities.

Beyond these broad programwide issues, other specific design shortcomings have had a negative effect on output achievement and development impact. Among them:

1. The RPE loan program was not sustainable because it was implemented by commercial banks that had neither the expertise nor the interest to manage an agribusiness loan program.

2. In the CAAS project, most cooperatives lacked an economic base sufficient to allow them to benefit from interventions and become financially viable. Had this been taken into account in the initial design, the cooperative development program would have been smaller, more focused, and more cost-effective. This lack of focus also affected the ANEPP export development component during its first 3 years.

Lack of an Articulated Strategy

Until 1990 the Mission did not have an agribusiness strategy. In the early years, 1984 86, USAID's implied strategy was to rehabilitate productive enterprises. This quick start strategy, with little design effort, was perhaps appropriate for the times. The resulting impact, however, was short lived, partly because agribusiness needs and the capabilities of intermediary financial institutions had not been properly analyzed.

From 1987 through 1990, as economic conditions improved, the de facto strategy was broadened to include institution building and policy reform. Once again, however, the strategy suffered from an inadequate analysis of constraints as well as insufficient consultation with the private sector. As a result, many project targets were overambitious and, in some cases, inappropriate. Few activities focused on critical constraints. During this period only the policy reforms supported by ANEPP made a significant sustainable contribution to agribusiness growth.

An Improving Macroeconomic Setting

Level of development. An excellent natural resource base and low labor costs give Uganda obvious comparative advantages in agricultural exports, although its inland location precludes it from the advantage of direct maritime access. Given these factors, the level of development sets limits on how rapid the growth will be. Lack of infrastructure and of supporting services will continue to hamper growth in nontraditional exports. That will keep competitors such as Kenya and Zimbabwe ahead of Uganda in important respects. With the right policies and support, however, Uganda's comparative advantages can allow it to eventually close the gap with its "head start" neighbors.

Macroeconomic policy framework. The government's macroeconomic policy changes were an essential precondition to the rapid agribusiness growth occurring over the past 5 years, but there continues to be limited capacity to implement policy changes and conduct policy analysis. Until the country has brought its huge fiscal and balance-of-payments imbalances down to manageable levels and the government has developed independent policy analysis capability, the agribusiness sector cannot be assured that macroeconomic policy will remain as attractive as it now is. Moreover, the government's commitment to private sector development and market-led growth must be strengthened and made more coherent and consistent.

FOOTNOTE:

"Relatively generous" because USAID assistance accounts for only about 5 percent of Uganda's net official development assistance receipts. The World Bank and IMF have been major providers of program aid in support of macroeconomic policy reforms. Yet, in view of USAID's "in-country presence" and its role in policy dialogue, it may be fair to give it more than strictly proportional credit for the impact of macroeconomic policy reform.

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